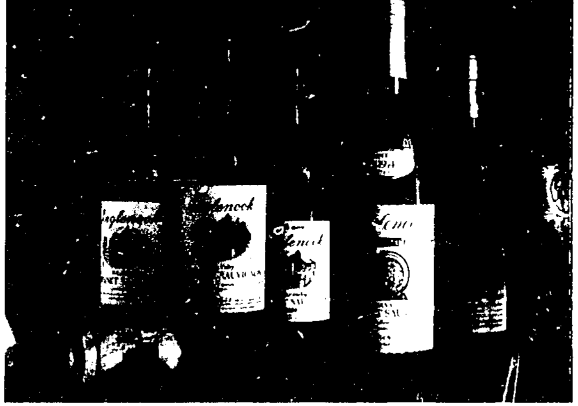
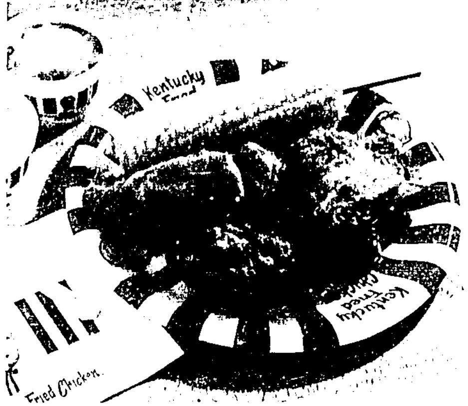

REPORT

Even in the d[illegible] climate of fiscal [illegible], consumers clung to a more leisurely, pleasurable lifestyle. They reordered their priorities, perhaps, and simplified their pleasures, but clearly gave no sign of turning back the clock.

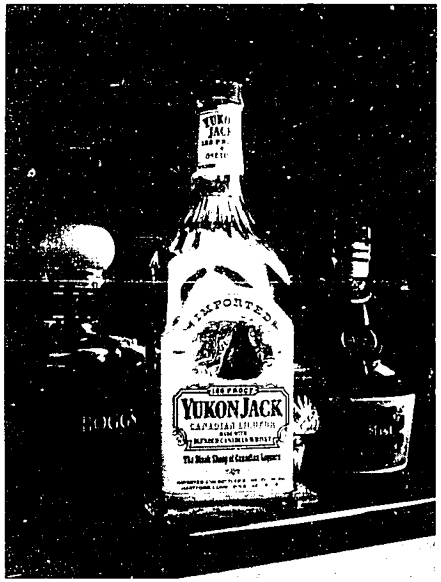
As the photos on the following pages show, there were cook-outs on the lawn, a band concert in the park, and a tube-ride down a rambling river . . . the pleasures of a day spent close to home.

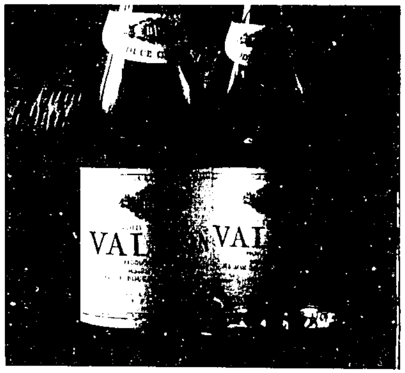
And consumers, more than ever, sought out top quality at an affordable price, consequently discovering and [illegible] more Heublein products. Heublein makes a conscious effort to keep in the mainstream of American life. That [illegible] true today as it was when Heublein was founded on that very precept in 1875.




Kentucky Fried
Fried Chicken


PURVEYORS TO
80 PROOF


IMPORTED
100 PROOF
YUKON JACK
CANADIAN LIQUEUR




1973

Heublein

Contents

Financial Highlights

(In thousands except per share data)	1980*	1979	% Increase
Revenues	**$1,921,879**	**$1,769,074**	**8.6**
Income before income taxes	146,058	131,019	11.5
Income taxes	68,647	62,889	9.2
Net income	**77,411**	**68,130**	**13.6**
Dividends declared	34,566	31,631	9.3
Shareholders' equity	496,358	450,705	10.1
Average number of common shares outstanding	21,404	21,363	.2
Per common share:			
Earnings — primary	$ 3.62	$ 3.19	13.5
Earnings — fully diluted	3.48	3.09	12.6
Dividends declared	1.625	1.49	9.1
Shareholders' equity	23.20	21.16	9.6

*After giving effect to a change to the LIFO method of valuing certain inventories (see Inventories note on page 36)

Heublein performed very well against the down-trending economy in fiscal 1980, achieving record sales and earnings. All our operating groups contributed to the record performance which attests to the broad, underlying strengths of the company and the effectiveness of management throughout.

The U.S. economic climate certainly didn't make these results easy to achieve. In the second quarter of the calendar year real gross national product registered its second sharpest decline since 1945 and consumer confidence slumped along with it to an all-time low.

Consumers, badly pummeled by persistent inflation, by mounting unemployment, and by declining disposable income, rearranged their priorities as they did in prior recessionary periods in order to maintain their lifestyle. Through it all they continued to spend, focused more on the home, and shopped harder for the quality associated with well-known branded goods All this favored sales of Heublein products which are mostly consumed at home.

We believe Heublein products are positioned where America is living today, and we are confident that we have the ability to keep them moving in the mainstream of American life

As an international marketing company, we stay closely attuned to the interplay between economic conditions and fast-changing consumer attitudes, values, and tastes, and use consumer research extensively to anticipate change and to profit from it. This proved fruitful for us this year and is a key to the planned growth of the company.

Basic Assets Strengthened

This year's record performance also added to the basic assets of our company which, stated briefly, are,

- Heublein products hold the leading position, or very close to it, in the fastest-growing segments of their markets
- Financially, the company has attained greater strength and the ability to use it advantageously.
- Strategic planning has improved consistently to the point where Heublein can effectively anticipate and deal with a volatile environment
- The management team is experienced and resourceful and trained to handle fast-changing times.

These were factors in the continued, solid turnaround at Kentucky Fried Chicken, where average sales in company stores reached record levels, running up a string of 25 consecutive months of increases over the prior year.

This was real volume growth and all the more encouraging because it was achieved in the face of a broad decline in the fast-food industry, with all other major chicken and hamburger chains reporting traffic down for the year.

In the Grocery Products Group, new capabilities in strategic planning turned up early warnings of declining beef consumption in the U.S., enabling it to program a timely strategy for use of A.1. Sauce on steakburgers A.1. achieved record sales this year.

In the Spirits Group, it was inherent strengths, built over time, that enabled it to boost its sales volume to the 20-million case mark for the first time, in a year when U.S. spirits industry sales were flat.

Light, Flavorful Beverages Preferred

Consumers continue to prefer light and flavorful alcoholic beverages, which is where Heublein has been concentrating its brands and its marketing efforts for many years now. Of the 20 best-selling spirits brands in the U S last year, three — Smirnoff, Popov, and Black Velvet — were Heublein's, with Smirnoff matching the growth of the vodka category. Black Velvet was rated the best performer of the 70's with a compounded growth rate of 17 per cent for the decade and Popov, right behind it, had a compounded growth rate of 16 per cent

New products are the life blood of an aggressive marketing company like ours, and we strengthened our position this year by introducing 43 that were either completely new or innovations on present products

One is a new super-premium vodka with a distinctive taste, called Smirnoff de Czar. It's made from the highest quality American grains, to a Smirnoff proprietary formula, and its bottle suggests its heritage

This year, more than ever, as consumers searched for good quality and good taste at an affordable price, they discovered what a rich variety of wines we have in this country. Wine sales continued to grow impressively, even in this adverse economy

United Vintners, with the widest range of products of any U.S. wine company, did well at both the premium and low-price level, reflecting two main forces at work in the market — the search for top quality at a reasonable price. Inglenook wines had an excellent year, increasing its sales at a rate 50 per cent better than the premium California wine category It has continued to show superior growth for the last 11 years

While Heublein's total U.S sales reached a record level this year, our international sales grew even faster, just as they have for several years now.

Smirnoff sales overseas reached 5.5 million cases compared to 7 million in the U.S. and will undoubtedly eclipse the U.S. market before too long. The growth opportunities in these world markets are also very attractive for Kentucky Fried Chicken for consumers overseas are just beginning to develop a taste for fast foods, as well as lighter beverages. The demographics, values and lifestyles, are changing there, following a pattern that is already established in the U.S.

That's true in Brazil, a nation of big opportunities, but also big inflation — it soared more than 90 per cent there this year. In that economic climate our Brazilian spirits and wines operation had a healthy increase in sales, and a profitable year.

These are the year's highlights in brief for the company's six operating groups, whose performances are discussed in much greater detail on the following pages.

On a broad scale, your company is in a much stronger position financially as a result of several important moves made this year.

For one, we switched certain inventories in the beverage and food operations from a first-in first-out (FIFO) method of valuation to a last-in first out (LIFO) method, which reflects inventory costs much more accurately in these inflationary times. Although this reduced income by 19 cents per share, the company still had record-level earnings The long-term benefits, in the form of enhanced cash flow and reduced taxes, will substantially increase the future return on investment

We also invested in a record $74 million in capital improvements, mostly in KFC stores and in our California wineries; receivables and inventories were held to last year's turnover rate, despite the adverse economy; and the return on shareholder's equity increased again this year. We also increased the dividend payout to shareholders for the 20th consecutive year.

Affirmative action was stressed in the conduct of our business and in the training of managers where it is now a measurable factor in their rated performance We made greater use of minority agencies, black and Hispanic, and minority vendors, and gave scholarship aid to black students directly and through the United Negro College Fund.

Programs Serving Society

In support of other socially-beneficial programs, we joined with the Distilled Spirits Council of the United States and several service groups to help curb alcoholism and alcohol abuse, and provided funds for research at the Harvard Medical School, aimed at finding causes for this disease Col Sanders again was national chairman of the March of Dimes fund drive in which virtually all KFC stores participated, producing more than a half-million dollars

We gave financial aid to health, welfare, and social institutions, with a priority for those in communities where the company has its major facilities

The record gains achieved this year certainly would not have been possible without the dedication, resourcefulness, and hard work of our employees We are grateful for this, and for the wise counsel and support of our Board of Directors, and the sound and skillful work of the committees of the Board.

In many respects, this was a trying year — one that tested our management at all levels But the results helped firm up our confidence that we can meet the economic challenges that lie ahead and make the most of the opportunities that come our way in 1981. We expect to achieve the company's growth targets in the coming year and, once again, to do measurably better than our competition.

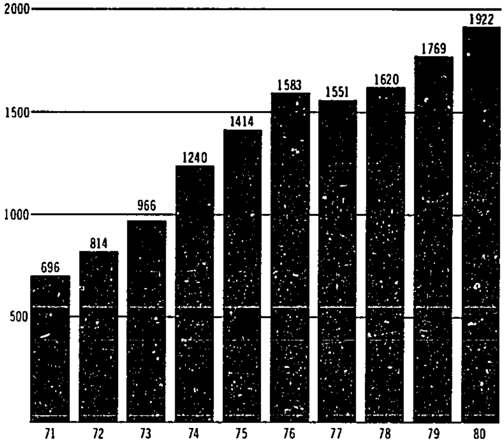
Stuart D Watson Hicks B Waldron

Stuart D Watson
Chairman

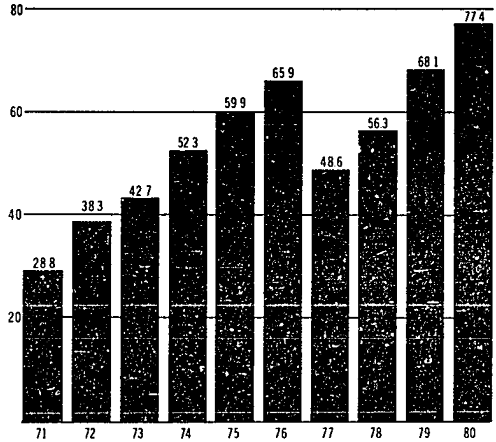
Hicks B Waldron
President

Heublein **Financial Highlights**

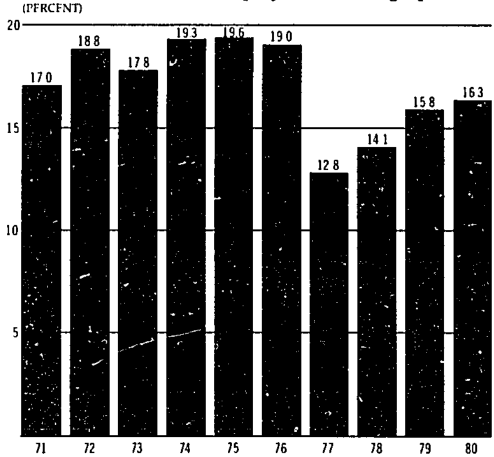
Revenues
(IN MILLIONS OF DOLLARS)



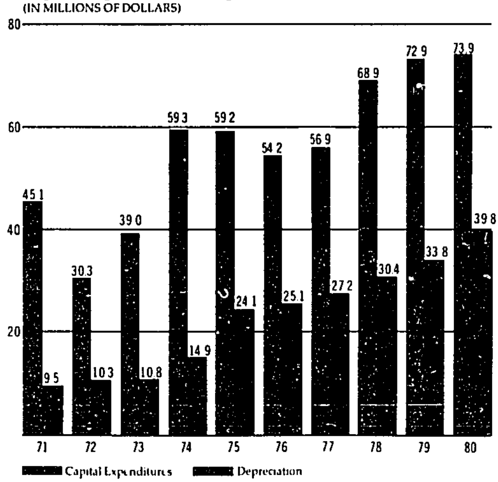
Income — Continuing Operations
(IN MILLIONS OF DOLLARS)



Return On Shareholders' Equity — Continuing Operations
(PERCENT)

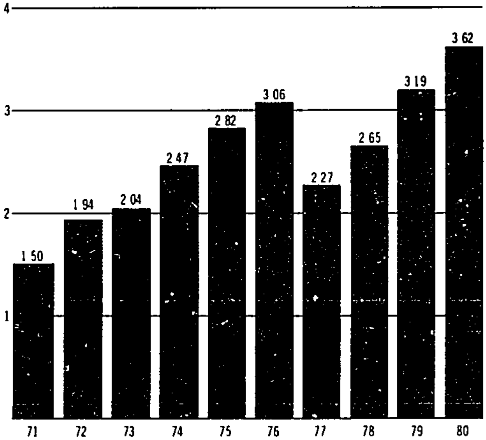


Capital Expenditures / Depreciation
(IN MILLIONS OF DOLLARS)



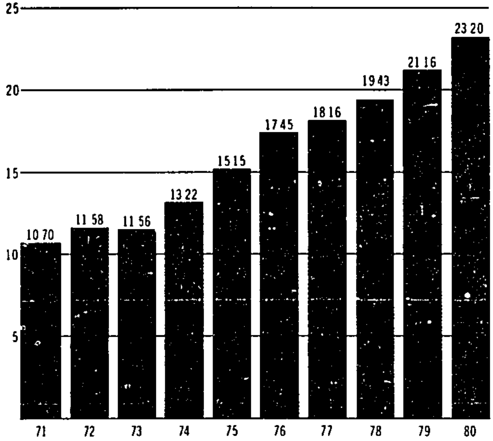
Earnings Per Share — Primary — Continuing Operations

(IN DOLLARS)



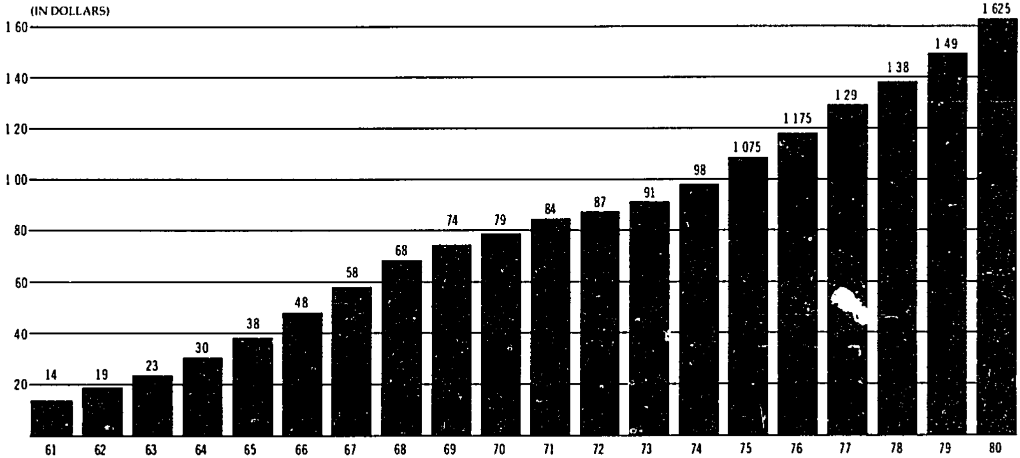
Shareholders' Equity — Per Share

(IN DOLLARS)



Dividends Declared — Per Common Share

(IN DOLLARS)




THE
Club
PIÑA COLADA
Faithfully

BEVERAGE OPERATIONS

Revenues from Heublein's alcoholic beverage business in the United States — including distilled spirits and wines — were up eight percent to $1,095,549,000 from $1,014,260,000.

Operating profit increased six percent to $107,380,000 from $101,764,000, after absorbing a charge of $5,956,000 related to a change to the LIFO method of valuing certain inventories.

Underlying these record results were sound planning, good execution, and the ability to respond quickly and effectively to more intense competition in a relatively lackluster market.

The Spirits Group successfully introduced a record number of new products, and at the same time expanded the market for several of its established major brands.

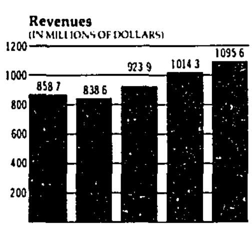
The Wines Group, focusing on the fast-growing table wine segment, had strong sales at both ends of the price spectrum, with gains by Inglenook Vineyards Wines and the popularly-priced Petri line

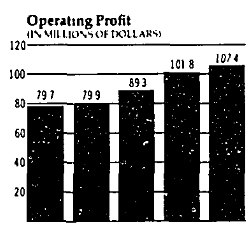
In another move to foster the growth of Heublein's beverage business, a new International Vintage Wine Company was established during the year. This will enable Heublein to participate more fully in the future growth of the multi-million-case imported wine market.

SPIRITS GROUP

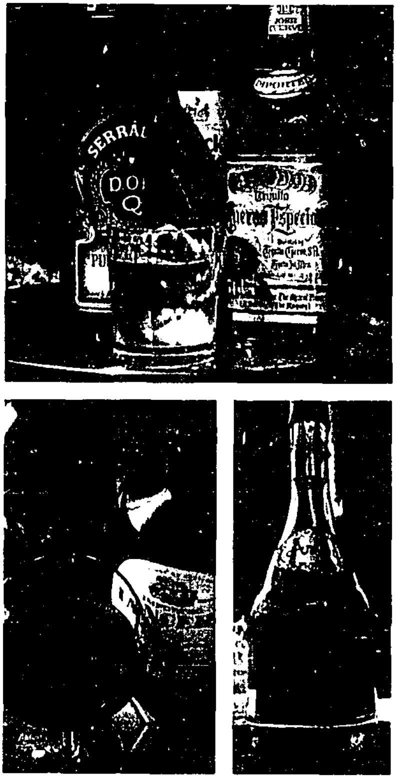
The year's record results underlined the mission of the Spirits Group, which is to lead the industry in marketing highly profitable premium-quality products Beyond this, the Group continually works to improve market share and earnings growth in strong, established product categories, while developing new products consistent with Heublein's quality image.

The Group's performance against that goal in fiscal 1980 was remarkably good. Revenues were up eight percent to $817,066,000, despite the onset of the recession, more intense competition, unabated inflation, and substantial inventory contractions at both the wholesale and retail levels.






SMIRNOFF
VODKA



Here's one of those times when life is in perfect harmony a group of good friends singing their favorite tunes, accompanied by a tinkling piano and a selection of premium-quality beverages from Heublein. Offering top quality at affordable prices, Heublein's spirits and wines have strong appeal for today's value-conscious consumers

Total Spirits Group sales topped 20 million cases, up three percent, more than twice the growth rate for the industry

Operating Environment

Unsettled economic conditions held the growth of the U.S spirits industry at 1.1 percent for the year, compared to three percent a year ago

The major industry trends of recent years continued Sales of traditional whiskies declined, by about one percent, while non-whiskies, such as vodka and cordials, gained more than three percent.

Significantly, the non-whiskies became the largest liquor segment for the first time, totaling 84 million cases versus an estimated 82 million cases for whiskies. This bodes well for Heublein's Spirits Group, which is positioned for the most part in the industry's growth segments.

Competing companies became increasingly active and resourceful, particularly in the areas of cocktails and cordials. The relatively small and new super-premium vodka category is growing. Our own Smirnoff de Czar was introduced in the latter part of the year and got off to an excellent start.

Our products which meet the criteria of lightness, moderate proof and mixability are doing best. Our principal market is the 25 to 44-year-old consumer group, which is projected to grow by some 10 million people over the next five years.

Strategy for Growth

The Spirits Group's strategy is to embrace the faster-growing segments of the spirits market with established products and new ones in such categories as cordials, rum, tequila, Canadian whisky, and specialty drinks. Other key points of the strategy are:

- Intensified consumer research to detect and analyze consumer trends affording opportunities for the spirits business.
- Heavy investment in consumer communications This year the Spirits Group invested significantly in advertising, merchandising and promotion of its premium brands.
- A high level of new product activity with the emphasis on the light and flavorful drinks demanded by today's consumers.
- Increased productivity and careful monitoring of profit margins

Performance Highlights

Highlights of the year's performance by the Spirits Group included:

- Case sales that exceeded the 20-million mark for the first time
- Introduction of more than a dozen new products, covering almost every segment of the business, from Smirnoff de Czar Special Reserve Vodka to Arrow Spearmint and Cinnamon Schnapps, Arrow Pina Colada Liqueur and Heublein Fruit Daiquiris.
- U.S. sales of Smirnoff, the world's leading vodka, increased more than two percent to seven million cases.
- Popov Vodka became the fastest-growing major spirits brand in the U.S., at the same time boosting its profit margins.
- Jose Cuervo, the nation's No. 1 tequila, registered a nearly 12 percent sales gain, markedly higher than the category as a whole.

Available in more than 30 delicious flavors, prepared cocktails from Heublein are ideally suited to today's active lifestyle. The handy new 200-milliliter Club Cocktail bottle was a popular innovation this year, as were the four new fruit daiquiris added to the Heublein Cocktails line.

- Sales of Arrow Cordials gained more than 10 percent, reflecting the growing demand for taste and mixability in alcoholic beverages.
- Introduction of a new two-drink 200-milliliter glass bottle for The Club Cocktails, which strengthened the Group's leading position in the prepared cocktail market. Club Cocktails were given an entirely new look with all-new packaging, point-of-sale displays and advertising.
- Black Velvet Canadian Whisky attained the distinction of being the fastest-growing spirits brand of the 1970s and continued to grow in popularity with annual sales of almost two million cases
- Achievement of greater productivity, as reflected in the production and sales of a larger volume of goods, at greater profit, with virtually no increase in the number of employees.

Competition within the spirits industry will become more intense as the nation moves through the recession. But, as this year's results demonstrate, the Spirits Group occupies a position of great strength and is geared to outperform the rest of the industry in the coming year.

WINES GROUP

The strong performance of Inglenook Vineyards Wines highlighted the year at the Wines Group. The Group's revenues for the year increased nine percent to $278,483,000. Operating profit was down slightly from a year ago, principally because of one-time costs related to withdrawal from low-margin wholesale wine operations in California and Metropolitan New York.

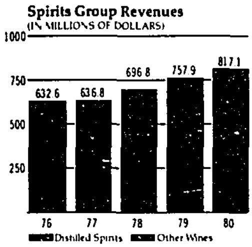
Operating Environment

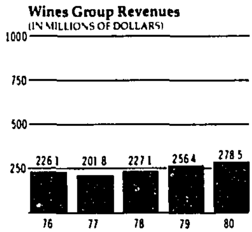
The year was marked by major economic and competitive changes which seriously impacted the U.S. wine industry. The industry continued to expand, however, increasing its estimated sales more than four percent to an annual level of 92 million cases.

Faced with recession and inflation, consumers showed a growing preference for lower-priced table wines in larger bottles. Distributors and retailers reacted to economic conditions by sharply reducing their inventories.

Consumers showed increasing sophistication about the price/value relationship when making wine purchases — a trend which should provide long-term benefits to the Wines Group.

The year ushered in a new age of more intense competition in the wine industry, marked by the heavier use of comparison advertising. Industry spending for advertising and promotion increased and, in general, there was intensified marketing activity. Indicative of the growing demand for California wines, new California





For this couple, the formula for a perfect summer afternoon includes a refreshing tube ride down a winding river. Topping off the day is a water's-edge picnic featuring Inglenook Vineyards Estate-Bottled Charbono. One of America's oldest and finest wineries, Inglenook once again achieved a significant increase in sales this year.

wineries continued to emerge at a rapid rate. There now are 418 operating wineries in the state, compared to 240 just 10 years ago, shortly after Heublein entered the business.

Strategy for Growth

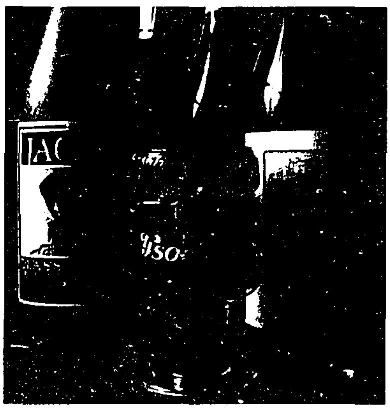
As the U.S. wine business continues to shift more and more to dry table wines, Heublein is concentrating its energies and resources on that market. It offers the industry's broadest line of table wines, covering every price category.

Performance Highlights

Highlights of the Wines Group's performance in Fiscal 1980 included:

- For the 11th consecutive year, Inglenook Vineyards Wines grew faster than the premium California wine category.
- The mid-premium Inglenook Vintage line took a wholly new and more aggressive approach to its marketing, featuring outstanding new packaging and two special new wines — a 1976 Cabernet Sauvignon and a 1978 Chardonnay. These new wines continue Inglenook's policy of offering excellent quality at a price that is highly competitive with moderately-priced imports and California wines.
- Jacaré, United Vintners' line of proprietary wines, again ranked among the nation's fastest-growing premium brands. Sales again increased dramatically this year.
- Colony Wines, United Vintners' entry in the standard wine segment, had a slight decline in sales, but continued to win critical approval for their quality and contributed significantly to the Group's sales volume.
- Beaulieu Vineyard Wines, recognized as one of the world's finest brands, had a 38 percent increase in sales.
- New products activity featured the introduction of T. J. Socials, a line of wine-based prepared drinks in six flavors, and of Lejon Soft Wines, a line of lower-proof premium table wines. Both achieved positive early results at the trade and consumer levels.

With its broad line of wines, priced to offer good value at all levels, the Wines Group is well-positioned to compete in today's volatile economy.




TACO
NET WT. 4 OZ.
A1

FOOD OPERATIONS

Fiscal 1980 was an excellent year for Heublein's U.S. food operations. The Food Service and Franchising Group and the Grocery Products Group increased revenues substantially and established a strong base for long-term progress.

Total revenues from food operations increased 10 percent to $455,382,000 compared to $413,923,000 the prior year. Operating profit was up 32 percent to $50,500,000 from $38,174,000, after absorbing a charge of $1,825,000 related to a change to the LIFO method of valuing certain inventories.

The key to this performance was effective execution of well-conceived growth strategies.

In a very difficult environment for the food service industry, sales by company-owned Kentucky Fried Chicken stores continued to increase, month by month, over the prior year. This solidified the turnaround which began two years ago.

The Grocery Products Group also reported an exceptional year, with A 1 Steak Sauce achieving record sales.

FOOD SERVICE AND FRANCHISING GROUP

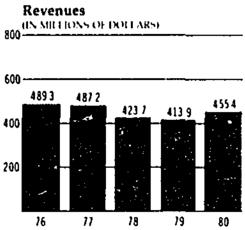
Kentucky Fried Chicken made solid progress, particularly in the 769 company-owned stores where average sales set a new all-time high.

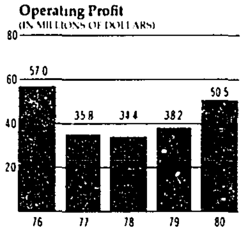
Average sales in company-owned stores in the U.S. climbed 12 percent to $365,000. Average sales of the 3,507 franchised KFC restaurants were up two percent to $308,000. Total Group revenues increased eight percent to $324,369,000.

Real sales growth at company stores, in excess of price increases, amounted to five percent for the year. While the total fast food industry declined slightly, KFC company stores increased customer traffic, and increased their business share in many major markets

Operating Evironment

The nation's fast food industry was hurt by the recession that lasted through the year and shows every sign of continuing.





For just $8 67, this family has just purchased three complete, delicious Kentucky Fried Chicken meals, including chicken, mashed potatoes and gravy, sweet corn, cole slaw, rolls and a beverage. That's good value, and that's one of the big reasons for Kentucky Fried Chicken's excellent performance this year

Consumer discretionary income and consumer confidence — which have a significant impact on fast food sales — declined throughout the year. This was aggravated by rising unemployment and continuing inflation.

The result was an industrywide decline in customer traffic which threatens to accelerate in fiscal 1981 Given the continuing difficulties in the economy, the short-term outlook is difficult to forecast. Although the economic news was bad, the year saw the continuation of many long-term trends favoring the growth of fast foods and of Kentucky Fried Chicken in particular. Among them were.

- A continuing increase in the per capita consumption of chicken.
- An increase in the number of 18-49 year-olds, who are the prime fast food customers.
- Growth in the number of working women and single-member households, who are heavier users of fast foods.
- The substantial price advantage of chicken as compared to the price of beef.
- The increasing perception among consumers that chicken has nutritional and dietary advantages over red meat
- A continuation of the U.S. lifestyle that favors purchase of food away from home and emphasizes quality, convenience and value.

Strategy for Growth

Kentucky Fried Chicken's success this year derives from the programs started three years ago. Fundamental to each of these programs is a back-to-basics concept, aimed at improving every phase of the business from training to facilities to marketing. These programs are working well and will be continued.

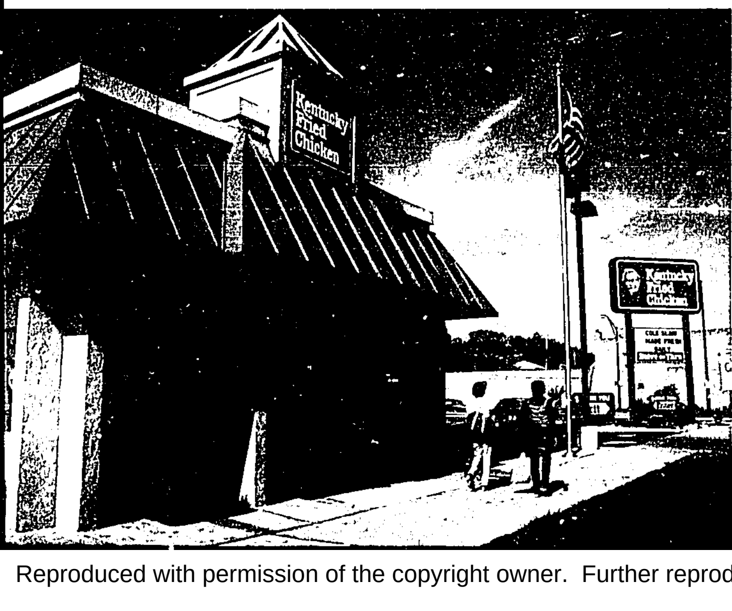
Emphasis now is being placed on encouraging more franchisees to adopt these successful programs. While franchisees have performed well in the face of economic adversity, the goal now is to help them match company performance. This is difficult because of the diversity and complexity of the franchise system, but it is attainable

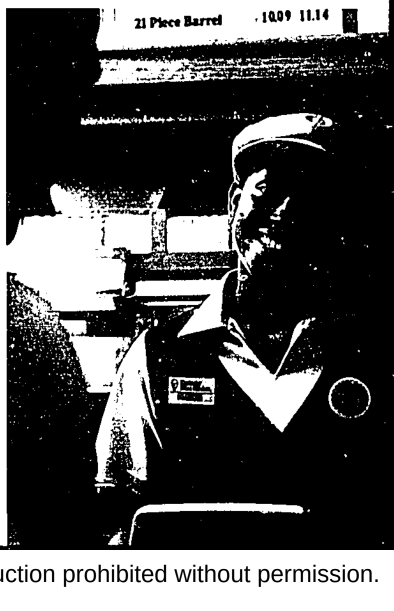
Performance Highlights

The most noteworthy achievements this year were:

- Group operating profit was up substantially over that of a year ago as a result of increased sales, improved operations, a mild winter and favorable broiler prices.
- Product quality was improved throughout the system. Stores now are serving fresher, hotter chicken. Cole slaw is now made daily in all company and most franchised stores, so it's fresher and tastier.
- KFC stores achieved considerably higher scores when inspected for every facet of quality, service and cleanliness. Scores increased to the mid-90s in company stores and to the high 80s in franchised stores this year, contrasted to a base score of 78 when the program started a few years ago.
- The new image design was completed at more than 200 company stores this year, helping to build customer traffic. This brings the total of new image company stores to over 360 High interest rates and economic uncertainties during the year slowed adoption of the new image by franchisees. But even so, there were nearly 500 new image stores being operated by franchisees at year's end.


Kentucky
Fried
Chicken


Kentucky
Fried
Chicken
Kentucky
Fried
Chicken


21 Piece Barrel
10.09 11.14

A satisfying Kentucky Fried Chicken meal is the perfect complement to another traditional American favorite – a band concert in the park on a Sunday afternoon. Along with good value, true convenience is another key factor in the growing popularity of Kentucky Fried Chicken.

- The KFC National Training Center in Louisville held classes for nearly twice the number of operators as the previous year. The Center offers nine different courses and seminars covering a broad range of business operations. Because of the increased demand for training, the Center was expanded at year end.

In the recessionary environment of 1981, fast food restaurants will be competing for a shrinking consumer dollar. It will be a time of challenge and testing for the industry. While the outlook for the economy is uncertain at best, KFC has the products, programs, controls and the management to compete successfully.

GROCERY PRODUCTS GROUP

The Grocery Products Group increased sales substantially this year by competing successfully in selected market segments that offered good return on investment relative to food industry norms.

Revenues increased 15 percent to a record $131 million and unit volume was up five percent. Contributing to the record results were strong sales gains by A.1. Steak Sauce, Grey Poupon Dijon Mustard, Ortega Taco Shells, Chiles and Sauces, and Regina Wine Vinegars and Cooking Wine.

Operating Environment

The Grocery Products Group faced intense competition this year in the nation's $250-billion food industry. Consumers were clearly more price/value conscious and more selective than ever before in their food purchases.

The high cost of working capital caused many food wholesalers and retailers to trim their inventories and to respond erratically to manufacturers' promotional programs. This disrupted normal distribution patterns and caused out-of-stock situations. In sum, it was a difficult year in which to do business.

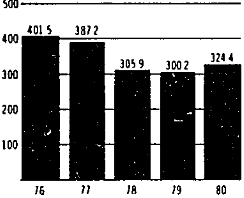
The food industry had its usual growth of about one percent for the year, but there were growth opportunities afforded by changes in consumer lifestyles, tastes and needs. For example, acting on one such opportunity, the Grocery Products Group re-positioned A.1. Steak Sauce and capitalized on the trend toward consumption of lower-cost cuts of beef.

Strategy for Growth

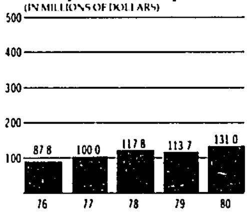
The Grocery Products Group's growth strategy focused on the following:

1. Developing high-potential market segments, including retail sauces and condiments, retail Mexican foods, and the foodservice business.

Food Service and Franchising Group Revenues (IN MILLIONS OF DOLLARS)



Grocery Products Group Revenues (IN MILLIONS OF DOLLARS)



KFC Owned · Franchise Fees and Royalties · Food · Other

2. Aggressive marketing and sales programs, designed to maximize the potential of each market segment
3. Improved technology and operating systems that will cut costs and increase operating efficiencies

Performance Highlights

Here's how the Grocery Products Group implemented its strategy during the year

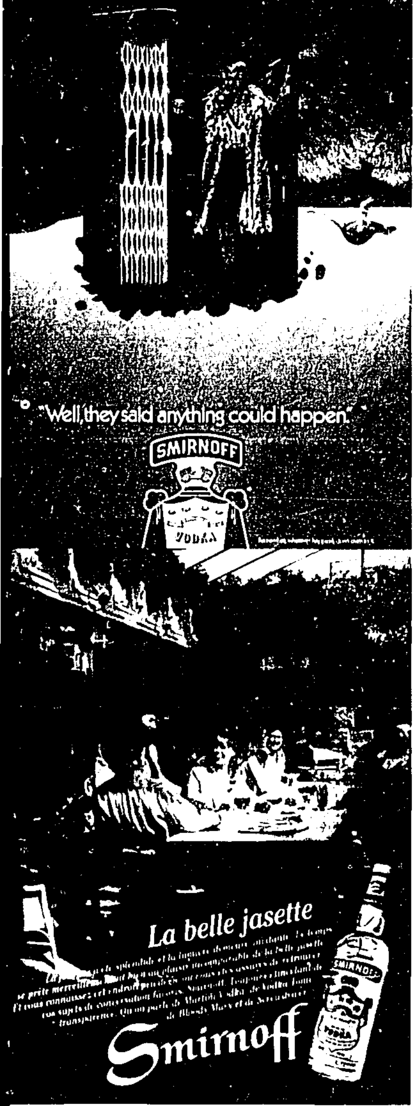
- A.1. Steak Sauce achieved record sales by increasing unit sales seven percent for the year, compared to only two percent for the whole meat sauce category in the U.S.. What makes this noteworthy is that U.S. beef consumption declined this year to the lowest level in 15 years. The "Steakburger" national TV advertising campaign, created to expand A.1.'s usage to hamburgers, proved to be highly effective.
- Grey Poupon Dijon Mustard achieved its fifth consecutive year of double-digit unit growth. Grey Poupon, made with white wine, was marketed not just as a condiment, but as a versatile seasoning in gourmet cooking. This broadened the market by capitalizing on the growing interest in new tastes and more sophisticated foods. Carefully-targeted advertising and publicity communicated Grey Poupon's appealing message to consumers
- A successful marketing strategy that promoted Ortega Mexican foods as an enjoyable alternative to traditional American foods sparked continued sales growth for the brand. A national prime time TV advertising campaign, presenting Ortega Tacos as "fun to make and fun to eat" spearheaded the marketing effort. Ortega advertising was supplemented in selected major markets by a promotional tie-in with professional soccer, a sport soaring in popularity among young adults and children, who represent a prime market for tacos.
- The Foodservice Operation concentrated on providing restaurant operators with unique, profitable menu additions, resulting in good gains. Ortega Taco Shell volume doubled; sales of Grey Poupon were up, stimlulated by the introduction of the chef-sized 24-ounce jar, and Hart's Buttermilk Biscuits were positioned as an important element in new recipes for restaurants. A heavy investment in supportive advertising to the foodservice trade was another factor in the increased sales.
- A profit-improvement program, now in its third year, helped to improve operating efficiencies and to combat hefty increases in energy and freight costs and widely fluctuating prices for packaging and raw materials.
- More than $2 million in assets were freed up by a new national distribution system that reduced inventories and speeded up billings by cutting the order processing-shipment-billing cycle significantly.

The Grocery Products Group will face a whole new set of challenges next year as consumers shop more keenly in a volatile economy. The Group is well-positioned to make the most of its opportunities and to achieve another year of superior performance.

After the Fourth of July parade, it's back home for a family cookout serving flavorful steakburgers with A 1 Steak Sauce Introduced in America by Heublein in 1906, A 1 has been pleasing palates ever since, and today it's more popular than ever


QUANDO AVETE INVENTATO UN DRINK FAMOSO COME SMIRNOFF, COSA FATE QUANDO VI CHIEDONO IL BIS?
Smirnoff
frisch und golden innen zart
いろいろの味たっぷりと。
The Family Treat
9 pieces of Chicken, arge coleslaw, large whipped potato and gravy, and 4 bread rolls.
Prueba hoy el "destornillador"
Smirnoff Vodka con Finley Naranja
SMIRNOFF
VODKA
Finley

INTERNATIONAL OPERATIONS



The economy in most of the world's major markets last year was stronger than in the United States. That favorable situation, plus good planning and execution, helped produce a record year for Heublein's international operations.

Heublein's International Group does business in more than 100 countries and territories around the world. In addition, Heublein do Brasil operates the largest spirits and wine company south of the equator.

Total international revenues for the year from these two operations increased nine percent to $370,948,000 from $340,891,000

Operating profit for the year was up 24 percent to $37,322,000 from $30,038,000

These gains would have been higher except for the sharp devaluation of the cruzeiro by the Brazilian government as part of an effort to improve that country's trade balance and to combat an inflation rate of over 90 percent for the year. Because of the cruzeiro's devaluation, sales for Heublein do Brasil, when reported in dollars, showed no gain for the year, despite a five percent increase in real volume.

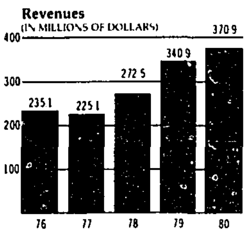
HEUBLEIN INTERNATIONAL GROUP

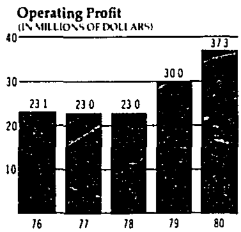
As Heublein has done in the United States, its International Group concentrated its financial and human resources on the fastest-growing segments of the fast-food and beverage markets

As a result its revenues for the year increased 16 percent to $234,501,000 from $202,843,000 in 1979.

Operating Environment

Demographics and the operating environment abroad favor the rapid growth of both fast food and alcoholic beverages, represented in our case primarily by Kentucky Fried Chicken and Smirnoff Vodka. Consumer trends in this direction have been growing fast and will grow even faster in the future.






ケンタッキーフライドチキン

Some of the elements that favor this are

- Many large countries in which the Group operates have shown stronger, steadier economic growth than the U.S has in recent years, particularly Japan, Mexico and Australia.
- Lifestyle trends that have favored Heublein's food and beverage business in the U.S are becoming more and more pronounced abroad· more women working, more two-income families, more leisure time, all explain the circumstances which are expanding the market for fast food and lighter, more flavorful alcoholic beverages.
- Because overseas fast-food markets are generally less developed and have fewer large competitors, they afford a particularly good opportunity for those operations already in place. Thus, Kentucky Fried Chicken, having established a leadership position in many markets, is experiencing rapid growth. There now are 1,130 KFC stores outside the U.S. owned or franchised by the Heublein International Group.
- Although the wine and spirits market is better developed than fast-foods in most countries, that's not true of vodka and specialty drinks. Consequently Smirnoff has been able to capitalize on its early entry into many of these markets.

Like double-decker buses and rainy weather, Kentucky Fried Chicken is part of the daily scene in the United Kingdom (left, above) The same is true of Mexico (far left), Japan and more than 40 other countries around the world Heublein's International Group now owns or franchises 1,130 Kentucky Fried Chicken stores outside the United States

Growth Strategies for Foods and Beverages

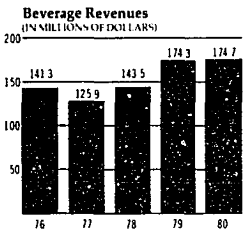
Heublein's strategies for developing these markets, laid down several years ago, are now proving fruitful. Basically they are to·

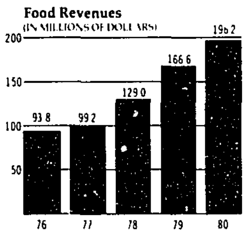
- Expand the KFC system, both company-owned and franchised stores, in selected markets around the world. Simultaneously, apply those programs that have proven successful in the U S., namely. store image enhancement, employee training, and renewed emphasis on the improvement of quality, service and cleanliness, the addition of menu items where appropriate, and improved advertising based on in-depth consumer research
- Aggressively promote the growth of our key alcoholic beverage brand, Smirnoff Vodka, with superior marketing programs emphasizing the brand's heritage, premium quality, and mixability. Expand the beverage business overseas by introducing other Heublein spirits and wines in selected markets

Performance Highlights

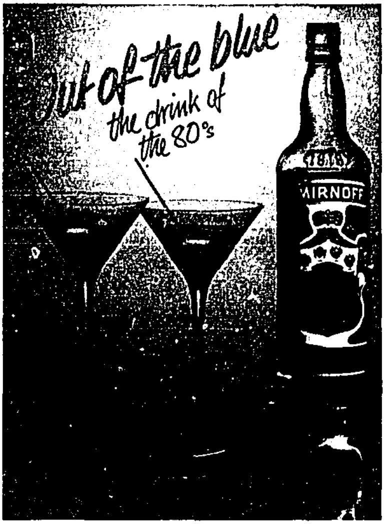
Highlighting the year's performance by the International Group were these developments.

- Kentucky Fried Chicken opened 63 new stores in Japan and increased per-store sales by 12 percent. The fast-food market in Japan is undergoing explosive growth and KFC is the market






SMIRNOFF
VODKA



Sales of Smirnoff Vodka outside the U S reached 5 5 million cases this year, aided by timely promotions such as "The Smirnoff Beat," a series of disco parties at popular nightspots throughout the Caribbean With a worldwide reputation for authenticity and premium quality, Smirnoff is well-positioned to benefit from the growing trend toward lighter-tasting drinks in many major markets abroad

leader, and holds a major share of the fast-food chicken market, with a total of 275 stores.

- In Australia, where there are 194 stores, Kentucky Fried Chicken took major steps to strengthen its leadership position in the face of intense competition and an economy slowed by trade union work stoppages.
- In the United Kingdom, where the 290 KFC stores are mostly franchised, 24 new ones were added and many others converted to the new image. This and the implementation of many of the same programs devised for KFC's U.S. stores paid off with a 31 percent increase in per-store sales.
- KFC's operations in Mexico, while still relatively undeveloped, are making major advances. Sales were up 40 percent. With Mexico's economy prospering from newly-found oil, and a growing middle class with a taste for fast-food, KFC, with only 52 stores at present, is in an excellent position to expand and flourish in the years immediately ahead.
- In the overseas beverage business, Smirnoff sales grew eight percent, to 5.5 million cases. The United Kingdom, Ireland and Norway all reported gains and increased market share In Norway, Smirnoff now accounts for an impressive 12 percent of all spirits sold Smirnoff also entered new markets during the year, including some Eastern Bloc countries.
- New product activity was accelerated during the year. New wine and spirits products were tested in several key markets, while a number of Heublein favorites, like its premixed cocktails, proprietary liqueurs, and premium California wines, were introduced in others. The successful results accomplished one of the Group's major goals, to broaden Heublein's beverage portfolio overseas

The performance highlights for the year listed above are indicative of the advances Heublein is making overseas on a broad front and reflect the growth opportunities we see for the future

HEUBLEIN DO BRASIL

Heublein do Brasil, the largest premium beverage company in the Southern Hemisphere is now showing the results of the organizational strength added by Heublein along with the modern management and marketing techniques it introduced there

Heublein do Brasil's case sales rose five percent, despite a flat-to-declining industry, and increased its market share. Dollar revenues were held to $136,447,000, approximately last year's level, by the negative impact of a series of currency devaluations, including a maxi-devaluation in December. Over the year, the Brazilian cruzeiro declined about 50 percent against the U.S. dollar

Operating Environment

Brazil's expanding economy achieved real growth of almost seven percent in its Gross National Product for calendar 1979

A fact significant to Heublein's prospects in Brazil is that its population is among the world's youngest. Some 52 percent of its 123 million people are under 19 years of age and more than 1.5 million join the labor force annually. This huge wave of young consumers should provide significant market growth for Heublein do Brasil for years to come.

Much of the population lives in major southeastern cities such as Sao Paulo and Rio de Janeiro, with 10 million and five million residents respectively. The company focuses its efforts not only on the major urban areas, but on the interior as well, as rural development is being stressed by the national government.

While the long-range outlook is generally positive, Brazil is faced with solving some serious problems.

- The inflation rate exceeded 90 percent, stemming largely from Brazil's need to import almost 90 percent of its petroleum requirements. This drove interest rates for working capital to a new high and placed a severe strain on Brazil's balance of trade.
- In an effort to break the inflationary cycle and the heavy reliance on imported oil, the government placed new controls on prices, wages, imports, financing and other parts of the economy.

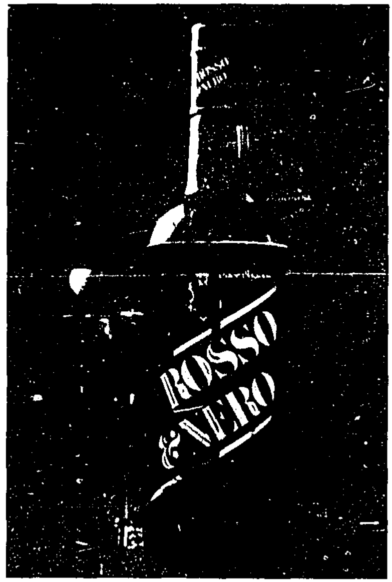
In this environment, Heublein do Brasil executed plans that enabled it to respond quickly to rapidly changing conditions.

Strategy for Growth

With all its problems, Brazil is one of the world's major growth markets In the markets in which Heublein competes growth will continue over the next few years, especially as inflation abates.

Heublein's strategy for growth is.

1. To concentrate on the fast-growing non-whiskey segments of the beverage market, including vodka, wine and aperitifs, where the company already has well-positioned, popular brands.
2. To establish an aggressive new product development program, targeted for these rapid growth categories.
3. To develop a well-balanced product portfolio offering a good return.
4. To develop and utilize the most effective combination of its human, financial and technical resources.



With its spectacular costumes and exuberant marchers, the annual "Carnaval" in Rio de Janeiro typifies the robust spirit that helps make Brazil one of the world's major growth markets Heublein do Brasil, the country's leading premium beverage company, increased its market share this year with a five percent gain in case sales

Performance Highlights

The major accomplishments for Heublein do Brasil were.

- Improvement in its operating margins brought about by more efficient operations and selective price increases.
- Gains in share of the major premium national wine and spirits markets. Smirnoff strengthened its No. 1 position in the fast-growing vodka segment.
- Increased consumer recognition of key brands with the nation's vast sports audience through the sponsorship of several major golf, tennis and sailing competitions.
- Formation of a new product department that successfully introduced several important new brands, including an aperitif, and a popularly-priced Brazilian brandy.
- The establishment of an energy conservation program at the company's two plants which has produced a 27 percent reduction in fuel consumption with significant cost savings
- A savings of nearly $2 million stemming from a new profit improvement program.

The management organization at Heublein do Brasil has proved its ability to perform well under difficult conditions, but the volatile environment in Brazil will pose a continuing challenge in the coming year


Drury's

Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries The Company's investments in affiliated companies (not majority-owned) are accounted for on the equity basis, and the Company's operating results include its share of their net income. All significant intercompany transactions are eliminated in consolidation.

Inventories

Inventories are stated at lower of cost or market. The cost of bulk whiskey and wine (except domestic bulk whiskey) is determined principally by specific lots. For the remaining inventories, cost is determined by the first-in, first-out method, except certain domestic inventories which, beginning in 1980, utilize the last-in, first-out method (see Inventories note)

Whiskey and wine in storage for aging over a number of years are included in current assets in accordance with industry practice.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation and amortization are computed generally by the straight-line method over the estimated useful lives of the respective assets or the terms of the related leases. On sale or retirement, the asset cost and related accumulated depreciation are removed from the accounts, and any related gain or loss is reflected in income. Expenditures which extend the useful lives of assets are capitalized while maintenance and repairs are charged to expense as incurred.

Cost in Excess of Net Assets of Purchased Businesses, Trademarks, Contracts and Franchises

Cost in excess of net assets of purchased businesses is being amortized over periods ranging from 5 to 40 years except for $4,016,000, relating to an acquisition prior to November 1, 1970 which is not being amortized as, in the opinion of management, there has been no diminution in value.

Trademarks, contracts and franchises are carried at cost less amortization which is being provided principally on a straight-line basis over periods ranging from 5 to 20 years.

Franchise and License Fees

Initial franchise fees are recorded as income on the date the store is opened by the franchisee. Monthly fees from franchisees and licensees are accrued as earned.

Taxes

Deferred income taxes result from timing differences between tax and financial recognition of income and expense. The principal items causing timing differences are provisions for losses on disposition of discontinued operations and accelerated depreciation.

The investment tax credit is deducted from federal income tax expense in the year in which the related asset is placed in service.

United States and Canadian excise taxes constitute a lien on in-bond inventories. Since these taxes are not payable until withdrawal from bond or after twenty years, whichever is earlier, excise taxes have not been accrued with respect to such inventories in accordance with industry practice.

Pension Plans

The Company has non-contributory retirement plans which cover substantially all full-time domestic employees except certain employees covered by union pension plans. Under collective bargaining agreements, the Company makes contributions to various pension plans for certain union employees. Pension costs charged to current earnings include charges for current service and amortization of prior years' service costs over 30 years. The Company's policy is to fund amounts accrued.

Earnings Per Share

Primary earnings per share are based on the weighted average number of common and common equivalent shares outstanding during each year. Fully diluted earnings per share also include the effects of the remaining dilutive stock options and convertible securities.

Consolidated Statement of Income

(In thousands except per share data)	Year ended June 30, 1980	1979
Revenues:		
Net sales	$1,865,474	$1,719,222
Franchise and license fees	56,405	49,852
	1,921,879	**1,769,074**
Costs and expenses:		
Cost of sales	1,325,293	1,222,693
Selling, advertising, administrative and general expenses	401,384	376,405
	1,726,677	1,599,098
Operating profit	195,202	169,976
Other deductions:		
Interest expense:		
Long-term debt	14,315	13,077
Other	11,046	10,029
Corporate and miscellaneous — net	23,783	15,851
	49,144	38,957
Income before income taxes	146,058	131,019
Income taxes:		
Federal	52,967	49,968
State	9,078	9,211
Foreign	6,602	3,710
	68,647	62,889
Net income	**$ 77,411**	**$ 68,130**
Earnings per share:		
Primary	**$3.62**	**$3.19**
Fully diluted	**$3.48**	**$3.09**

See accompanying notes and summary of accounting polices

Consolidated Balance Sheet

(In thousands)	June 30, 1980	1979*
ASSETS		
Current assets:		
Cash and temporary investments	$ 37,884	$ 52,842
Accounts and notes receivable	195,780	180,393
Inventories:		
Finished products	101,158	94,045
Products in process	8,237	6,611
Bulk whiskey and wine	156,964	142,474
Raw materials	34,312	31,722
Total inventories	300,671	274,852
Deferred income tax benefits	20,834	10,444
Prepaid expenses	9,378	6,798
Total current assets	564,547	525,329
Investments in and advances to affiliated companies	19,826	20,150
Property, plant and equipment, net	372,043	345,109
Other assets:		
Cost in excess of net assets of purchased businesses	53,833	56,177
Trademarks, contracts and franchises	2,675	2,395
Deferred income tax benefits	—	992
Other	34,095	26,681
	90,603	86,245
	$1,047,019	$976,833

Heublein

	June 30,	
	1980	1979*
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 28,177	$ 17,797
Current portion of long-term debt	5,572	3,102
Current obligations under capital leases	2,900	3,197
Accounts payable	80,061	67,791
Accrued expenses	81,898	69,839
Taxes:		
Federal, state and foreign income taxes	28,189	32,131
Excise taxes	54,846	53,459
Other taxes	9,019	12,823
Dividends payable	8,886	8,130
Total current liabilities	**299,548**	**268,269**
Long-term debt due after one year	**201,306**	**208,376**
Capital lease obligations	**24,132**	**26,541**
Other long-term liabilities (including reserve for discontinued operations)	**20,328**	**17,823**
Minority interest in foreign subsidiaries	**5,347**	**5,119**
Shareholders' equity:		
Preferred stock:		
Series A	927	1,000
Series B	244	255
Common stock	10,673	10,624
Additional paid-in capital	147,578	144,739
Retained earnings	336,936	294,417
	496,358	**451,035**
Less 7,650 treasury shares in 1979, at cost	—	330
Total shareholders' equity	**496,358**	**450,705**
	$1,047,019	**$976,833**

*Reclassified to conform to fiscal 1980 presentation

See accompanying notes and summary of accounting polices

Consolidated Statement of Additional Paid-in Capital

(In thousands)	Year ended June 30, 1980	1979
Balance at beginning of year	**$144,739**	**$144,204**
Excess of option price over stated value of common stock issued on exercise of options	1,268	487
Excess of fair market value over stated value of restricted stock issued	1,476	—
Excess of stated value of preferred stock converted over stated value of common stock issued	3	4
Tax benefit from exercise of options issued under stock option plans	92	44
Balance at end of year	**$147,578**	**$144,739**

Consolidated Statement of Retained Earnings

(In thousands except per share data)	Year ended June 30, 1980	1979
Balance at beginning of year	**$294,417**	**$257,918**
Net income	77,411	68,130
Dividends declared on common stock — $1.625 per share ($1.49 in 1979)	(34,566)	(31,631)
Cancellation of treasury shares	(326)	—
Balance at end of year	**$336,936**	**$294,417**

See accompanying notes and summary of accounting polices.

Consolidated Statement of Changes in Financial Position

(In thousands)	Year ended June 30, 1980	1979*
SOURCES OF WORKING CAPITAL		
Operations:		
Net income	$ 77,411	$ 68,130
Charges (credits) not requiring funds.		
Depreciation and amortization	39,806	33,837
Deferred income taxes	1,985	(386)
Equity in unremitted earnings of unconsolidated affiliates	(3,559)	(4,033)
Minority interest in earnings of foreign subsidiaries	228	821
Funds provided from operations	115,871	98,369
Book value of assets sold	10,402	11,164
Increase in long-term debt	5,426	13,032
Changes in investments in and advances to affiliated companies	3,751	2,250
Increase in common stock and additional paid-in capital resulting from exercise of stock options and issuance of restricted stock	2,889	541
Other — net	154	1,027
	138,493	126,383
USES OF WORKING CAPITAL		
Additions to property, plant and equipment	73,854	72,896
Dividends declared	34,566	31,631
Additions to cost in excess of net assets of purchased businesses, trademarks, contracts and franchises	357	7,674
Reduction of long-term debt	12,496	3,353
Increase in other assets	8,384	538
Decrease in other long-term liabilities	897	(2,012)
	130,554	114,080
Increase in working capital	**$ 7,939**	**$ 12,303**
CHANGES IN WORKING CAPITAL		
Cash and temporary investments	$(14,958)	$(12,653)
Accounts and notes receivable	15,387	9,475
Inventories	25,819	57,155
Deferred income tax benefits	10,390	4,050
Prepaid expenses	2,580	(2,468)
Notes payable, current portion of long-term debt and current obligations under capital leases	(12,553)	5,390
Accounts payable, accrued expenses and taxes	(17,970)	(47,989)
Dividends payable	(756)	(657)
Increase in working capital	**$ 7,939**	**$ 12,303**

*Reclassified to conform to fiscal 1980 presentation

See accompanying notes and summary of accounting policies

Acquisitions

In fiscal 1979, the Company purchased for $7,600,000 the remaining 18% minority interest in United Vintners, Inc.

Taxes

The provision for federal income taxes includes deferred tax charges (credits) resulting from the following:

	1980	1979
	(In thousands)	
Excess of tax over book depreciation	$2,077	$1,670
Losses from discontinued operations provided for in prior periods	791	556
Other items	(883)	(2,612)
Provision (benefit) for deferred income taxes	$1,985	$ (386)

The consolidated effective tax rate was 47% for 1980 and 48% for 1979. Significant items affecting these rates were 3.4% in 1980 and 3.7% in 1979 due to state and local taxes, net of federal income tax benefit; and (2.2)% in 1980 and (3.1)% in 1979 due to investment tax credits.

No provision for federal income taxes has been made on the undistributed earnings of foreign subsidiaries since it is management's intent to reinvest substantially all earnings of foreign subsidiaries abroad. If such earnings were distributed, income tax credits would be available to substantially reduce any resulting income tax liability.

Net sales include excise taxes of $491,829,000 in 1980 and $465,682,000 in 1979.

Inventories

Effective July 1, 1979, the Company adopted the last-in, first-out (LIFO) method of valuing certain inventories in its Beverage and Food Operations. The change from specific lot and first-in, first-out (FIFO) methods for these inventories was made to match more closely current costs with current revenues during inflationary periods. The effect of this change was to reduce net income for fiscal 1980 by $4,124,000 or $.19 per share. It is not practical to restate earlier years or to determine the cumulative effect of the change to LIFO.

Had these inventories been valued using the specific lot and FIFO methods rather than the LIFO method, inventories would have been $7,781,000 higher than those stated in the accompanying balance sheet at June 30, 1980.

Property, Plant and Equipment

Property, plant and equipment are summarized by major classification as follows.

	June 30,	
	1980	1979
	(In thousands)	
Land and land improvements	$ 57,103	$ 47,625
Buildings	120,901	110,304
Machinery and equipment	247,786	221,714
Leasehold improvements	76,256	61,514
Capital leases (principally buildings)	35,196	38,052
Construction work in progress	20,934	28,326
	558,176	507,535
Less accumulated depreciation and amortization	186,133	162,426
	$372,043	$345,109

Accumulated amortization pertaining to capital leases, included above, amounted to $13,392,000 and $13,397,000 at June 30, 1980 and 1979, respectively.

Heublein

Temporary Investments and Short-Term Borrowings

Temporary investments, consisting principally of commercial paper and U S Government obligations, amounted to $19,510,000 and $37,897,000 at June 30, 1980 and 1979, respectively

Short-term borrowings at June 30, 1980 and 1979, related to borrowings of foreign subsidiaries, principally Brazil in 1980, where year-end interest rates exceeded 30%.

Selected information regarding the Company's short-term borrowings follows.

	1980		1979	
	Amount	Weighted average interest rate	Amount	Weighted average interest rate
	(Dollars in thousands)			
Borrowings at June 30	$28,177	24.6%	$17,797	9 4%
Maximum balance of month-end borrowings	83,629		52,702	
Average month-end borrowings	45,176	17 2%	30,013	19 1%

At June 30, 1980 and 1979, the Company had available unsecured lines of credit from several domestic banks aggregating $51,880,000 and $21,800,000, respectively, and from foreign banks aggregating $54,902,000 and $47,948,000, respectively.

In fiscal 1980, the Company entered into a revolving credit agreement with a group of banks for the borrowing of up to $75,000,000 to August 22, 1982, decreasing $15,000,000 annually to August 22, 1986. The most restrictive term of the revolving credit agreement limits the payment of cash dividends. Consolidated retained earnings not so restricted at June 30, 1980 amounted to approximately $88,400,000.

The Company is expected to maintain sufficient average bank balances to compensate those financial institutions that provide it with informal domestic lines of credit and the revolving credit agreement. Such balances are not legally restricted as to utilization or withdrawal and are generally met with normal operating balances.

Long-Term Debt

Long-term debt due after one year consists of the following:

	June 30, 1980	June 30, 1979
	(In thousands)	
4½% convertible subordinated debentures due May 15, 1997	$100,000	$100,000
8⅜% Notes due February 15, 1985	90,000	90,000
Mortgage notes payable in various installments	2,844	3,010
Other	8,462	15,366
	$201,306	$208,376

The 4½% subordinated debentures are convertible into common stock at approximately $69.50 per share (1,438,800 shares) and are subject to redemption through annual sinking fund payments beginning in 1983 of not less than 6% nor more than 12% of the principal amount of debentures outstanding in 1982.

The 8⅜% Notes may not be redeemed before February 15, 1983. On or after that date, the Notes may be redeemed at the option of the Company in whole or in part at their principal amount, plus accrued interest.

At June 30, 1980 mortgage notes payable were collateralized principally by property, plant and equipment with a net carrying amount of approximately $6,079,000 and other long-term debt was secured by approximately $3,405,000 of inventories.

While the long-term borrowing agreements limit the payment of cash dividends, the limitation under the revolving credit agreement is more restrictive.

Aggregate maturities of long-term debt for the next five fiscal years are as follows.

1981 — $ 5,572,000
1982 — $ 3,526,000
1983 — $ 9,547,000
1984 — $ 6,415,000
1985 — $96,424,000

Capital Stock

Changes in capital stock during fiscal 1980 and 1979 are summarized below

	Common	Preferred: Series A convertible non-dividend	Preferred: Series B convertible non-dividend
Shares authorized	30,000,000	5,000,000	
Stated value per share	$.50	$10	
Balance at July 1, 1978	21,228,588	169,717	26,797
Exercise of stock options	20,018		
Conversions of preferred stock	117	(57)	(393)
Redemptions		(18,000)	(969)
Balance at June 30, 1979	21,248,723	151,660	25,435
Exercise of stock options	51,934		
Conversions of preferred stock	49	(131)	(169)
Redemptions		(9,968)	(927)
Cancellation of treasury shares	(7,650)		
Awards of restricted stock	53,044		
Balance at June 30, 1980	21,346,100	141,561	24,339

Each Series A preferred share is convertible into .10 share of common stock and is also redeemable in whole or in part at the option of the holder. Redemptions amounted to $71,000 in 1980 and $77,000 in 1979. Partial redemptions (aggregating $489,000 at June 30, 1980) do not reduce the number of shares outstanding. Series B preferred stock is convertible into .2974 share of common stock and is also redeemable. The Company has the option to redeem both classes in whole or in part for $10 per share, less any amounts previously paid in partial redemption.

Authorized capital stock also includes 500,000 shares of 5% preferred stock, par value $100 per share and 200,500 shares of 5% convertible preferred stock, par value $100 per share, none of which were outstanding during 1980 and 1979.

Shares of common stock were reserved as follows:

	June 30, 1980	June 30, 1979
Conversion of outstanding		
4½% convertible subordinated debentures	1,438,800	1,438,800
Series A convertible preferred stock	8,982	9,709
Series B convertible preferred stock	7,238	7,564
Stock options and restricted stock	2,202,915	2,308,143
	3,657,935	3,764,216

Stock Options and Long-Term Growth Incentive Plan

The 1971 Stock Option Plan provides for the granting of options, both qualified and non-qualified, for the purchase of 500,000 shares of common stock. The 1974 Stock Option Plan, as amended, provided for the granting of qualified and non-qualified options for the purchase of 1,000,000 shares, and non-qualified options for the purchase of 900,000 shares of common stock

The terms of the qualified and non-qualified options may not exceed five and ten years, respectively, and the option prices cannot be less than the fair market value of the Company's common stock on the date of grant.

On October 25, 1979, the Shareholders further amended the 1974 Stock Option Plan to eliminate further issuance of qualified options and to authorize the granting of Restricted Stock and Performance Units, as well as the previously authorized stock options and stock appreciation rights, without increasing the maximum number of shares issuable under the Plan. At that time the 1974 Plan was redesignated the Long-Term Growth Incentive Plan.

With certain exceptions, Restricted Stock awards are subject to specified periods of continuous employment (presently three years). The market value of shares at dates of award is charged to operations over the restriction period. Compensation expense of $551,000 was charged to operations in 1980 and, at June 30, 1980, the unamortized deferred charge of $1,002,000 is included in other assets.

At the time of contingent cash awards, in the form of Performance Units, an award period is established during which certain goals must be met to enable the participants to receive full or

partial payment The value of a Unit will equal the fair market value of a share of common stock at the expiration of the award period The estimated fair market value of Performance Units awarded is charged to operations over the award period. Compensation expense of $399,000 was charged to operations in 1980

Changes in options outstanding during fiscal 1980 and 1979 were·

		Option price		Market price*	
	Shares	Per share	Total	Per share	Total
		(Dollars in thousands except per share amounts)			
Outstanding at July 1, 1978	1,375,028	$23 69 to $48 56	$40,704	$26 88	$36,954
Granted	—				
Exercised	(20,018)	23.81 to 25 38	498	26 81 to 31.56	592
Cancelled	(48,188)				
Outstanding at June 30, 1979	1,306,822	23 69 to 48 56	38,560	26 13	34,141
Granted	5,000	29.00	145	29 00	145
Exercised	(51,934)	23 69 to 26 44	1,295	24 56 to 31 94	1,517
Cancelled	(38,050)				
Outstanding at June 30, 1980	1,221,838	23.69 to 48.56	36,161	30 69	37,498
Became exercisable during:					
1980	213,766	23 69 to 48 56	7,230	26 25 to 31 00	6,232
1979	316,056	23 81 to 48 56	9,823	26 63 to 28 88	8,822

*At dates granted, exercised, became exercisable or June 30, respectively

Options exercisable at June 30, 1980 and 1979 aggregated 959,731 and 809,119, respectively. At June 30, 1980 and 1979, there were options for 981,077 and 1,001,321 shares, respectively, available for future grant. No charges have been made to operations in connection with options granted to date.

Changes in outstanding Restricted Stock and Performance Units during fiscal 1980 were·

		Performance Units	
	Restricted Stock	Units	Market value
Granted	53,396	39,396	$1,208,965
Cancelled	(352)	(352)	(10,802)
Outstanding at June 30, 1980	53,044	39,044	$1,198,163

Leases

The Company leases land, buildings and equipment. Many of these leases contain renewal options and some include escalation clauses. All noncancellable leases with an initial term greater than one year have been categorized as capital or operating leases in conformity with Financial Accounting Standard No. 13, "Accounting for Leases".

Future minimum lease payments under noncancellable leases as of June 30, 1980 are summarized below:

	Capital leases	Operating leases
	(In thousands)	
Fiscal year ending June 30,		
1981	$ 5,907	$ 8,931
1982	4,839	7,127
1983	4,330	6,538
1984	3,773	5,633
1985	3,410	4,482
Thereafter	29,863	20,113
Total minimum lease payments	52,122	$52,824
Less amount representing interest	25,090	
Total obligations under capital leases	$27,032	

Rental expense under operating leases, net of minor sublease income, was $14,878,000 in 1980 and $14,732,000 in 1979, including contingent rental expense of $1,372,000 and $1,072,000, respectively. The most significant portion of contingent rental expense relates to the payment of mileage charges on transportation equipment.

Pension and Deferred Compensation Plans

Pension expense was $10,308,000 in 1980 and $9,137,000 in 1979.

The Company's contribution under its Deferred Compensation Plan for salaried employees is the lesser of 8% of net income, as defined, or 8% of participants' salaries. Contributions amounted to $5,248,000 in 1980 and $4,651,000 in 1979.

Business Segments

The Company operates worldwide principally in four business segments: production and marketing of distilled spirits and prepared cocktails (Spirits), production and/or marketing of wines and brandies (Wines), production and sale of specialty food products (Grocery) and operating and franchising principally Kentucky Fried Chicken Restaurants (Restaurants). The business segment information for the three years ended June 30, 1980 is presented below.

	1980	1979	1978
		(In thousands)	
Revenues:			
Spirits	$ 883,419	$ 819,563	$ 742,575
Wines	386,938	368,972	324,794
Grocery	131,511	114,193	118,160
Restaurants	520,011	466,346	434,583
Consolidated	$1,921,879	$1,769,074	$1,620,112
Operating profit:			
Spirits	$ 93,341	$ 85,570	$ 73,105
Wines	32,655	31,451	28,895
Grocery	17,904	17,989	17,949
Restaurants	51,302	34,966	26,711
Consolidated	195,202	169,976	146,660
Interest expense	25,361	23,106	25,041
Corporate and miscellaneous — net	23,783	15,851	12,319
Income before income taxes	$ 146,058	$ 131,019	$ 109,300
Identifiable assets:			
Spirits	$ 320,379	$ 300,703	$ 272,257
Wines	308,445	282,559	221,748
Grocery	63,219	66,696	61,170
Restaurants	276,682	244,330	227,659
Corporate	78,294	82,545	100,412
Consolidated	$1,047,019	$ 976,833	$ 883,246
Capital expenditures:			
Spirits	$ 5,825	$ 6,980	$ 18,847
Wines	14,885	20,414	14,460
Grocery	3,087	5,456	2,429
Restaurants	49,721	38,987	32,537
Corporate	336	1,059	658
Consolidated	$ 73,854	$ 72,896	$ 68,931
Depreciation and amortization:			
Spirits	$ 6,393	$ 5,648	$ 4,639
Wines	8,910	6,784	5,633
Grocery	3,644	3,243	2,706
Restaurants	19,616	16,766	16,211
Corporate	1,243	1,396	1,224
Consolidated	$ 39,806	$ 33,837	$ 30,413

Heublein

Geographic area information is presented below

	1980	1979	1978
		(In thousands)	
Revenues:			
United States	$1,550,931	$1,428,183	$1,347,589
Brazil	136,447	138,048	115,529
Remaining foreign geographic areas	234,501	202,843	156,994
Consolidated	$1,921,879	$1,769,074	$1,620,112
Operating profit:			
United States	$ 157,880	$ 139,938	$ 123,677
Brazil	12,733	9,948	4,693
Remaining foreign geographic areas	24,589	20,090	18,290
Consolidated	$ 195,202	$ 169,976	$ 146,660
Identifiable assets			
United States			
Operating assets	$ 739,678	$ 682,772	$ 610,320
Corporate	78,294	82,545	100,412
Brazil	95,529	97,181	83,195
Remaining foreign geographic areas	133,518	114,335	89,319
Consolidated	$1,047,019	$ 976,833	$ 883,246

Intersegment, intergeographical and export transactions are not significant.

Operating profit of each segment is total revenue less operating expenses. Operating profit excludes interest expense, income taxes and "Corporate and miscellaneous — net", which consists of interest income, equity in earnings of unconsolidated affiliates, general corporate expenses, minority interest in earnings of foreign subsidiaries and miscellaneous general expenses (see Management's Discussion and Analysis of Consolidated Summary of Operations).

Corporate identifiable assets are principally cash and temporary investments.

Foreign exchange gains, principally in Brazil, for fiscal 1980 and 1979 were $4,803,000 and $1,205,000, respectively. The exchange gain in fiscal 1980 results primarily from the devaluation of the Brazilian cruzeiro. This exchange gain in Brazil is more than offset by lower reported profits when translated to U.S. dollars.

In fiscal 1980, operating profit of the Spirits, Wines and Grocery segments would have been $5,229,000, $727,000 and $1,825,000 higher, respectively, if the specific lot and FIFO inventory methods were used rather than the LIFO method (see Inventories note)

Pending Legal Proceedings

In December 1972, the Federal Trade Commission (FTC) filed a complaint alleging a violation of Section 7 of the Clayton Act in connection with Heublein's 1969 acquisition of an 82% interest in United Vintners, Inc., a California winery, from Allied Grape Growers. This complaint, as amended, charged that, as a result of the acquisition, Heublein violated Section 7 of the Clayton Act and Section 5 of the Federal Trade Commission Act. After a long trial, on July 16, 1979 the FTC released the Administrative Law Judge's opinion and proposed order, which concluded that the probable effects of the acquisition may be to lessen competition His proposed order, which would not take effect until all appeals are exhausted, would require: (1) that Heublein divest United Vintners within one year from its effective date, and (2) that Heublein not make any further acquisitions in the wine industry which would give Heublein more than ten percent of the market, within the next ten years. His decision is not a final or binding decision of the FTC, and Heublein has filed an appeal with the FTC. This appeal was argued before the FTC on December 6, 1979, and Heublein is currently awaiting the FTC's decision on that appeal Final resolution, including any court review, could require several years In any event, management believes that the outcome of this litigation will not have a material adverse effect on the financial condition of Heublein.

Heublein and its subsidiaries are defendants in various other litigation matters in which aggregate alleged damages are substantial. Based upon the advice of counsel, management believes Heublein and its subsidiaries have adequate defenses and no material liability will result from such litigation.

Selected Quarterly Financial Data (Unaudited)

The following is a summary of selected unaudited quarterly financial data for the years ended June 30, 1980 and 1979 (in thousands except per share data):

1980	First quarter	Second quarter	Third quarter	Fourth quarter
Net sales	$438,554	$521,716	$432,040	$473,164
Franchise and license fees	15,573	13,466	12,513	14,853
Total revenues	$454,127	$535,182	$444,553	$488,017
Cost of sales	$311,280*	$372,803*	$307,736*	$333,474
Net income:				
Before LIFO adjustment	$ 21,120	$ 24,412	$ 16,624	$ 19,379
LIFO adjustment	(936)	(1,097)	(1,000)	(1,091)
	$ 20,184	$ 23,315	$ 15,624	$ 18,288
Earnings per share				
Primary				
Before LIFO adjustment	$ 99	$1.14	$ .77	$ .91
LIFO adjustment	(.04)	(.05)	(.04)	(.06)
	$ .95	$1.09	$ .73	$ .85
Fully diluted				
Before LIFO adjustment	$ 95	$1.09	$ 75	$ 87
LIFO adjustment	(.04)	(.05)	(.04)	(.05)
	$ .91	$1.04	$ .71	$ .82

*Restated for the effect of the change to the LIFO method of valuing certain inventories

1979	First quarter	Second quarter	Third quarter	Fourth quarter
Net sales	$414,605	$482,552	$396,217	$425,848
Franchise and license fees	14,039	11,932	10,578	13,303
Total revenues	$428,644	$494,484	$406,795	$439,151
Cost of sales	$297,647	$344,004	$282,162	$298,880
Net income	$ 17,627	$ 20,698	$ 13,950	$ 15,855
Earnings per share				
Primary	$ .83	$ .97	$ 65	$ .74
Fully diluted	$ .80	$ .93	$ 64	$ .72

Supplementary information on the Effects of Changing Prices (Unaudited)

As required by Financial Accounting Standard No. 33, "Financial Reporting and Changing Prices", the Company is presenting supplemental information designed to represent the effect of inflation on its operations.

Certain amounts appearing in the primary financial statements (inventories, property, plant and equipment, cost of sales, and depreciation and amortization expenses) have been restated to what is known as a "historical cost/constant dollar" basis. This restatement, through the use of the Consumer Price Index for all Urban Consumers (CPI-U), adjusts transactions recorded in actual dollars at different times to dollars having the same general purchasing power.

Cost of sales is adjusted by restating the historical cost of inventories at the beginning and end of the year. No adjustment has been made for that portion of the Company's inventories valued by the last-in, first-out (LIFO) method since these amounts already approximate average fiscal year 1980 dollars.

Depreciation and amortization expenses are adjusted for general inflation by first restating the historical cost of property, plant and equipment to average fiscal year 1980 dollars. This restated

cost becomes the base from which depreciation and amortization are calculated using the same methods and asset lives used in the historical cost statements

In accordance with Statement No. 33, no adjustments to income tax expense reported in the primary financial statements have been made in determining net income adjusted for general inflation This provision is consistent with present tax laws which do not allow deductions for increased depreciation expense and cost of sales due to inflation. As a result, the effective tax rate rises from 47.0 percent on a historical cost basis to 59.6 percent on a constant dollar basis

Due to the fact that net monetary liabilities were held during a period in which the purchasing power of the dollar declined, the Company experienced a gain, since those monetary liabilities will be paid with dollars having decreased purchasing power. It should be noted that this purchasing power gain on net monetary liabilities does not represent receipt of cash and should not be considered as providing funds for subsequent reinvestment in the Company.

Since the CPI-U measures price changes on a wide variety of goods and services consumed by an average American urban family, it is questionable whether such price changes represent those experienced by the Company. Management cautions that this supplementary information may not reflect the true impact of inflation upon the Company.

The Company's Annual Report on Form 10-K (a copy of which is available upon request) contains additional information with respect to replacement cost of inventories and productive capacity and the approximate effect which replacement cost would have had on the computation of cost of sales and depreciation expense.

Consolidated Statement of Income
Adjusted for General Inflation
Year ended June 30, 1980
(In thousands except per share data)

	As reported in financial statements	Adjusted for general inflation
Revenues	$1,921,879	$1,921,879
Cost of sales	1,325,293	1,347,572
Selling, advertising, administrative and general expenses	401,384	409,958
Other deductions	49,144	49,144
Income before income taxes	146,058	115,205
Income taxes	68,647	68,647
Net income	$ 77,411	46,558
Gain on net monetary items		31,034
Net income, adjusted for general inflation after gain on net monetary items		$ 77,592
Net income per common share	$ 3.62	$ 2 18
Gain on net monetary items per common share		1 45
Net income per common share, adjusted for general inflation after gain on net monetary items		$ 3 63
Net assets at year end	$ 496,358	$ 682,183

The adjustment to depreciation and amortization increased cost of sales by $5,059 and selling, advertising, administrative and general expenses by $8,574 for a total depreciation and amortization effect of $13,633

Five Year Comparison of Selected
Financial Data Adjusted for General Inflation*
(Dollars in thousands except per share data)

	Year ended June 30,				
	1980	1979	1978	1977	1976
Revenues	$1,921,879	$2,004,433	$2,007,868	$2,051,108	$2,214,672
Dividends declared per common share	1.625	1 69	1 71	1 71	1 64
Market price per common share at year end	28.52	29 60	33 46	32 73	69 25
Average consumer price index	232 5	205 2	187 6	175 8	166 2

*Amounts shown are stated in average fiscal 1980 dollars

Supplementary Income Statement Information

	1980	1979
	(In thousands)	
Taxes, other than income taxes		
Federal, state and foreign excise taxes	$492,329	$466,211
Other	27,031	25,384
	$519,360	$491,595
Advertising, merchandising and sales promotion	$168,913	$154,977
Depreciation and amortization	$ 39,806	$ 33,837
Maintenance and repairs	$ 26,196	$ 23,426

Management Responsibility for Financial Statements

The financial statements included in this report were prepared by the Company in conformity with generally accepted accounting principles. These statements include certain amounts which are based upon informed estimates and judgments. Management has determined these estimates and is responsible for the integrity of the financial statements and for other financial information included in this report.

Management maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded and that the financial records reflect the authorized transactions of the Company. As a part of this process, the Company has an internal audit function which evaluates the adequacy and effectiveness of internal controls.

The Audit Committee of the Board of Directors is comprised of directors who are neither officers nor employees of the Company The Committee meets periodically with management, internal auditors and the independent certified public accountants to review the adequacy of internal control and financial reporting. The Director of Internal Audit and the independent certified public accountants have full and free access to meet with the Audit Committee with and without the presence of management.

Hicks B. Waldron

Hicks B Waldron —
President and Chief Executive Officer

Gwain H Gillespie

Gwain H Gillespie —
Senior Vice President Finance and Administration

Report of Certified Public Accountants

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK N Y 10017

Board of Directors and Shareholders
Heublein, Inc.

We have examined the accompanying consolidated balance sheet of Heublein, Inc. at June 30, 1980 and 1979, and the related consolidated statements of income, additional paid-in capital, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Heublein, Inc. at June 30, 1980 and 1979, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles, which have been applied on a consistent basis during the period except for the change, with which we concur, to the LIFO method of accounting for certain inventories in the year ended June 30, 1980 as described in the Inventories note to the consolidated financial statements.

July 24, 1980

Arthur Young & Company

Heublein

The following discussion is presented to explain certain comparative changes shown in the Consolidated Summary of Operations. The Company's accounting policies, consolidated financial statements and notes to consolidated financial statements should be read in conjunction with this discussion since they are all essential in evaluating the Company's results of operations.

Fiscal year increase (decrease) in the components of earnings	Increase (decrease) 1980 compared to 1979		1979 compared to 1978	
	(Dollars in thousands)			
Revenues	$152,805	8.6%	$148,962	9.2%
Cost of sales	102,600	8.4	83,306	7.3
Selling, advertising, administrative and general expenses	24,979	6.6	42,340	12.7
Interest expense	2,255	9.8	(1,935)	(7.7)
Corporate and miscellaneous — net	7,932	50.0	3,532	28.7
Income taxes	5,758	9.2	9,879	18.6

Revenues

The Beverage Group increased 8.0% in 1980 and 9.8% in 1979 as a result of good performances by both the spirits and wines operations. Food revenues rose 10.0% in 1980 due to higher per store averages at KFC and increases in most major grocery products. In 1979, the Food Group declined 2.3% due mainly to the phase-out of KFC's equipment and supplies operation and a reduction in the number of company-owned stores, partially offset by higher per store averages. The International Group advanced 8.8% in 1980 and 25.1% in 1979 from improved volumes principally in KFC operations in Australia, Great Britain and Japan and the distilling operation in Brazil. The effect of the Brazil volume increase was offset in 1980 by the maxi-devaluation of the cruzeiro. Management estimates the Company's price increases amounted to 3% in both years.

Cost of Sales

Increases for both years relate mainly to increased sales volumes in the Beverage and International Groups. Higher raw material prices, mainly grapes, as well as greater manufacturing costs, were encountered throughout the Company. Cost of sales in 1980 increased $7.8 million as a result of the change to the LIFO method of pricing certain inventories. Partially offsetting 1979's increase were decreased costs in the Food Group resulting from lower sales volume, principally the phase-out of KFC's equipment and supplies operation.

Selling, Advertising, Administrative and General Expenses

Increases in both years were due to higher advertising, merchandising, sales promotion and selling expenditures, primarily in the Food and International Groups in 1980, and in the Beverage and International Groups in 1979. The 1980 increase in general expenses was partially offset by increased exchange gains.

Interest Expense

The 1980 increase was primarily attributable to higher interest rates and additional domestic borrowings for working capital needs. This increase was reduced somewhat by improved management of our working capital needs, particularly in Brazil, which was the main reason for 1979's decrease.

Corporate and Miscellaneous—Net

Lower interest income and equity in earnings of unconsolidated affiliates, and higher miscellaneous general expenses accounted for over $3 million of the 1980 increase. In 1979, these items accounted for $1.7 million of the increase. General corporate expenses increased more than 20% in 1980, including the impact of expenses related to the centralization of certain Company-wide functions. In 1979, these expenses increased 11%.

Income Taxes

The tax rates were 47.0% in 1980, 48.0% in 1979 and 48.5% in 1978. The decline for both years is due principally to reductions in the statutory federal tax rate.

Consolidated Summary of Operations
(Dollars in thousands except per share data)

	1980**	1979
Revenues	$1,921,879	$1,769,074
Costs and expenses:		
Cost of sales	1,325,293	1,222,693
Selling, advertising, administrative and general expenses	401,384	376,405
	1,726,677	1,599,098
Operating profit	195,202	169,976
Interest expense	25,361	23,106
Corporate and miscellaneous—net	23,783	15,851
Income before income taxes	146,058	131,019
Income taxes	68,647	62,889
Income from continuing operations	77,411	68,130
Income (loss) from discontinued operations, less tax effect	—	—
Income before extraordinary items	77,411	68,130
Extraordinary items, less tax effect	—	—
NET INCOME	77,411	68,130
Preferred dividends	—	—
Earnings applicable to common stock	$ 77,411	$ 68,130
Common and common equivalent shares	21,404,448	21,362,908
Earnings per common and common equivalent share:		
Continuing operations	$3.62	$3 19
Discontinued operations	—	—
Before extraordinary items	3.62	3.19
Extraordinary items	—	—
NET EARNINGS	$3.62	$3.19
Earnings per common share assuming full dilution:		
Continuing operations	$3.48	$3.09
Discontinued operations	—	—
Before extraordinary items	3.48	3.09
Extraordinary items	—	—
NET EARNINGS	$3.48	$3.09
Dividends declared per common share	$ 1.625	$ 1.49
Common dividends declared	34,566	31,631
Earnings retained in the business*	42,845	36,499
Taxes of all kinds*	588,007	554,484
Capital expenditures	73,854	72,896
Depreciation and amortization*	39,806	33,837
Net property, plant and equipment	372,043	345,109
Working capital	264,999	257,060
Current ratio	1.9 to 1	2.0 to 1
Return on shareholders' equity*	16.3%	15.8%
Income as a percent of revenues*	4.03%	3.85%
Worldwide employment	27,062	24,922
Common shareholders	24,328	26,620

Restated where material (not restated for leases prior to 1975, since information was not available)
*Based on continuing operations
**After giving effect to a change to the LIFO method of valuing certain inventories (see Inventories note)

Heublein

1978	1977	1976	1975	1974	1973	1972	1971
$1,620,112	$1,550,902	$1,583,133	$1,414,415	$1,240,142	$ 966,139	$ 814,000	$ 695,636
1,139,387	1,094,151	1,100,170	988,872	854,504	661,806	547,065	471,140
334,065	318,098	323,151	277,943	255,998	201,776	172,124	148,696
1,473,452	1,412,249	1,423,321	1,266,815	1,110,502	863,582	719,189	619,836
146,660	138,653	159,812	147,600	129,640	102,557	94,811	75,800
25,041	31,354	20,456	19,665	9,830	6,357	7,381	8,321
12,319	11,301	9,070	6,458	8,786	6,656	7,657	6,858
109,300	95,998	130,286	121,477	111,024	89,544	79,773	60,621
53,010	47,381	64,405	61,570	58,683	46,877	41,474	31,834
56,290	48,617	65,881	59,907	52,341	42,667	38,299	28,787
—	(7,200)	7,184	1,498	2,069	1,544	(607)	396
56,290	41,417	73,065	61,405	54,410	44,211	37,692	29,183
—	—	—	—	—	(13,800)	(15,250)	(6,865)
56,290	41,417	73,065	61,405	54,410	30,411	22,442	22,318
—	—	—	—	—	—	293	1,078
$ 56,290	$ 41,417	$ 73,065	$ 61,405	$ 54,410	$ 30,411	$ 22,149	$ 21,240
21,251,335	21,435,418	21,536,526	21,216,540	21,166,002	20,932,055	19,607,538	18,522,645
$2.65	$2.27	$3.06	$2.82	$2.47	$2.04	$1.94	$1 50
—	(.34)	.33	.07	.10	.07	(.03)	.02
2.65	1.93	3.39	2 89	2.57	2.11	1.91	1 52
—	—	—	—	—	(.66)	(.78)	(.37)
$2.65	$1.93	$3.39	$2.89	$2.57	$1.45	$1.13	$1.15
$2.58	$2.22	$2.96	$2.71	$2.40	$1.99	$1.87	$1.44
—	(.31)	.31	.07	.09	.07	(.03)	.02
2.58	1.91	3 27	2.78	2.49	2.06	1.84	1.46
—	—	—	—	—	(.61)	(.73)	(.33)
$2.58	$1.91	$3.27	$2.78	$2.49	$1.45	$1.11	$1.13
$ 1 38	$ 1.29	$ 1.175	$ 1.075	$ .98	$ .91	$ .87	$ 84
29,269	27,333	24,838	22,711	20,497	18,095	15,921	9,554
27,021	21,284	41,043	37,196	31,844	24,572	22,085	18,155
506,726	469,903	486,338	452,885	421,249	341,247	292,349	250,990
68,931	56,858	54,215	59,164	59,259	38,954	30,325	45,086
30,413	27,211	25,052	24,131	14,919	10,750	10,267	9,458
313,665	288,062	279,327	252,932	189,880	148,858	149,052	153,564
236,418	232,405	228,948	217,297	212,800	124,800	147,530	77,035
2.0 to 1	2.1 to 1	2.0 to 1	2 1 to 1	2.2 to 1	1.8 to 1	2.4 to 1	1 6 to 1
14.1%	12.8%	19.0%	19.6%	19 3%	17.8%	18.8%	17 0%
3.47%	3.13%	4.16%	4.24%	4.22%	4.42%	4.71%	4.14%
22,817	22,789	24,871	25,912	24,711	18,300	17,452	16,794
28,247	29,071	24,769	27,174	27,493	28,537	30,044	33,426

Heublein's Board of Directors

The April 1980 meeting of Heublein's Board of Directors was held at the Kentucky Fried Chicken National Training Center in Louisville, providing the opportunity for a detailed briefing on KFC operations. While in Kentucky, Board members also visited Heublein's new spirits plant in Paducah, where they were updated on Spirits Group activities These informal pictures were taken at those briefings.


STUART D WATSON


HICKS B WALDRON


JOHN G MARTIN


CHRISTOPHER W CARRIUOLO


ARTHUR A MILLIGAN


LISLE C CARTER JR


EDWARD B BATES


RALPH A HART


JAMES F ENGLISH, JR


WILLIAM H MORTENSEN


EDWARD H HAMM ROBERT L TRESCHER


LEON W HARMAN


CHARLES G KLOCK

Directors

EDWARD B. BATES
Chairman, Connecticut Mutual Life Insurance Company

CHRISTOPHER W. CARRIUOLO
Executive Vice President

LISLE C. CARTER, JR.
President, University of The District of Columbia

JAMES F. ENGLISH, JR.
Vice President, Trinity College and Chairman of the Board, The Connecticut Bank and Trust Company

EDWARD H. HAMM
Vice President, The Northland Company (A financial service company)

LEON W. HARMAN
President, Harman Management Corporation (A franchisee for quick-service restaurants)

RALPH A. HART
Consultant and Retired Chairman Heublein Inc

CHARLES G. KLOCK
Retired President, General Electric Credit Corporation

JOHN G. MARTIN
Consultant and Retired Chairman Heublein Inc

ARTHUR A. MILLIGAN
President, Bank of A Levy

WILLIAM H. MORTENSEN
Personal Investments

ROBERT L. TRESCHER
The Sr Partner, Law Firm of Montgomery, McCracken, Walker & Rhoads

HICKS B. WALDRON
President

STUART D. WATSON
Chairman

Committees of the Board

EXECUTIVE COMMITTEE
STUART D WATSON*
EDWARD B BATES
JAMES F ENGLISH, JR
CHARLES G KLOCK
JOHN G MARTIN
ROBERT L TRESCHER
HICKS B. WALDRON

AUDIT COMMITTEE
ARTHUR A MILLIGAN*
LISLE C CARTER, JR
ROBERT L TRESCHER

COMPENSATION AND BENEFITS COMMITTEE
JOHN G MARTIN*
EDWARD B. BATES
JAMES F. ENGLISH, JR.
CHARLES G KLOCK
ROBERT L TRESCHER

FINANCE COMMITTEE
CHARLES G. KLOCK*
EDWARD B. BATES
JAMES F ENGLISH, JR.
HICKS B WALDRON
STUART D WATSON

NOMINATING COMMITTEE
EDWARD B BATES*
JAMES F ENGLISH, JR
JOHN G. MARTIN

SOCIAL RESPONSIBILITY COMMITTEE
LISLE C. CARTER, JR.*
CHRISTOPHER W CARRIUOLO
EDWARD H HAMM
LEON W. HARMAN

*Chairman of Committee

Corporate Officers

STUART D. WATSON
Chairman

HICKS B. WALDRON
President

CHRISTOPHER W. CARRIUOLO
Executive Vice President

GWAIN H. GILLESPIE
Senior Vice President — Finance & Administration

JOHN A. POWERS
Senior Vice President — Alcoholic Beverages

PAUL R. DOHL
Vice President — Group Executive Spirits Group

ROBERT A. MARTIN
Vice President — Group Executive Wines Group

MICHAEL A. MILES
Vice President — Group Executive Food Service & Franchising Group

BARRY M. ROWLES
Vice President — Group Executive International Group

ROBERT R. WEISS
Vice President — Group Executive Grocery Products Group

HUGH R. BEATH
Vice President and Treasurer

GEORGE CASPAR
Vice President, Secretary and General Counsel

GENE R. EHNEN
Vice President and Controller

CHARLES J. HERBERT
Vice President
President, Spirits Sales Division

WILLIAM W. MAURITZ
Vice President — Human Resources

JOSEPH M. McGARRY
Vice President
Communication and Public Affairs

JOHN J. MORAN
Vice President — Assistant to the Chairman

ROY E. STONE
Vice President — Technical Resources

Principal Offices

Corporate Headquarters
Farmington, Connecticut 06032 — (203) 677-4061

Food Service and Franchising Group Headquarters
1441 Gardiner Lane, Louisville, Kentucky 40232 — (502) 459-8600

Kentucky Fried Chicken
Zantigo America's Mexican Restaurants
H. Salt Seafood Restaurants

Grocery Products Group Headquarters
4 Farm Springs Drive
Farmington, Connecticut 06032 — (203) 677-7441

International Group Headquarters
4 Farm Springs Drive
Farmington, Connecticut 06032 — (203) 677-7441

International Vintage Wines
330 New Park Avenue, Hartford, Connecticut 06101 — (203) 233-7531

Spirits Group Headquarters
330 New Park Avenue, Hartford, Connecticut 06101 — (203) 233-7531

Wines Group Headquarters
601 Fourth Street, San Francisco, California 94107 — (415) 777-6500

United Vintners, Inc.

Transfer Agents
The Bank of New York, 90 Washington Street, New York, New York 10015
Bank of America, N.T & S A , 55 Hawthorne Street, San Francisco, California 94105

Registrars
The Bank of New York, 90 Washington Street, New York, New York 10015
Wells Fargo Bank, N.A., P O Box 44011, San Francisco, California 94120

Trustees
4½% Convertible Subordinated Debentures
United States Trust Company of New York, 45 Wall Street, New York, New York 10005

8⅜% Notes
Morgan Guaranty Trust Company of New York, 23 Wall Street, New York, New York 10015

Annual Shareholders' Meeting

The annual meeting of shareholders of Heublein, Inc will be held at 10 00 a m Thursday, October 30, 1980 in the Grand Ballroom of The Hartford Hilton, Ford and Pearl Streets, Hartford, Connecticut

Heublein's 1980 Annual Report on Form 10-K as filed with the Securities and Exchange Commission will be available upon request from the Corporate Secretary, Heublein, Inc. Farmington, Connecticut 06032.

Heublein Brands of Foods and Beverages

Listed below are the principal brands of fine foods and beverages marketed by Heublein When you have occasion to use products of this type, we invite you to order Heublein brands by name — you'll be getting the finest products of their kind.

SPIRITS: Smirnoff Vodkas (80° & 100°) • Smirnoff Silver (90 4°) • Smirnoff de Czar Special Reserve Vodka (82 6°) • Black Velvet Canadian Whisky • Black & White Scotch • Arrow Cordials and Flavored Brandies • Heublein Cocktails • The Club Cocktails • José Cuervo Tequila • Cuervo 1800 • Don Q Rum • Irish Mist Liqueur • Milshire Gin • Popov Vodka • Relska Vodka • McMaster's Scotch and Canadian Whiskies • Matador Tequila • Malcolm Hereford's Cows • Yukon Jack Canadian Liqueur • Jeremiah Weed Bourbon Liqueur • Boggs Cranberry Liqueur • Vaklova Liqueur

CALIFORNIAWINES: Beaulieu Vineyard Wines • Inglenook Vineyards Wines • Jacare • Colony Table Wines, Dessert Wines and Aperitifs • Petri Wines • Annie Green Springs Refreshment Wines • T.J. Swann Refreshment Wines • H.M.S. Frost • Esprit • G & D Wines and Vermouth • Lejon Champagne, Vermouth and Brandy • Lejon Soft Wines • Jacques Bonet Champagne and Brandy

IMPORTED WINES: Lancers Vin Rosé, Vinho Branco and Rubeo • Harveys Bristol Cream • Bourhard Pere & Fils Burgundy • Egri Bikaver Hungarian Wine • Tokaji Aszu Hungarian Dessert Wine • Harveys Other Sherries and Ports • Vinya Rosé • Kiku Masamune Sake • Taru Sake • Zazie Refreshment Wine • Azura Italian Wine • Bouchard Pere & Fils Valbon Table Wines (White and Red) • Jardin Blanc Appelation Controlee Bordeaux • Canto Rodado Argentinian Wine

CONVENIENCE FOODS: Kentucky Fried Chicken and Fixin's • H Salt Seafood • Zantigo Mexican-American Foods

SAUCES AND SPECIALTY FOODS: A.1. Steak Sauce • Grey Poupon Mustard • Ortega Tacos, Chiles and Sauces • Snap-E-Tom Tomato Cocktail • Regina Wine Vinegars and Cooking Wines • Escoffier Sauces • Steak Supreme Steak Sauce • Hart's Dinner Rolls, Muffins and Buttermilk Biscuits

Dividends Declared & Stock Price Ranges

			Stock Price Range*	
	Quarter	Dividend	High	Low
1980	4	$ 415	$31¼	$24⅝
	3	.415	32¼	23⅝
	2	.415	32⅝	26¾
	1	.38	30¼	25⅜
1979	4	$.38	$30⅝	$25⅝
	3	38	31⅞	27¾
	2	.38	31⅜	25⅜
	1	35	29¼	25¼

*New York Stock Exchange

HEUBLEIN INC. FARMINGTON CONNECTICUT 06032